

No. 91-971

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IN THE  
**Supreme Court of the United States**  
OCTOBER TERM, 1991

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TWO PESOS, INC.,  
*Petitioner,*  
v.  
TACO CABANA INTERNATIONAL, INC., *et al.,*  
*Respondents.*

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On Writ of Certiorari to the United States  
Court of Appeals for the Fifth Circuit

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**PETITIONER'S BRIEF ON THE MERITS**

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PETITION FOR CERTIORARI FILED OCTOBER 18, 1991  
CERTIORARI GRANTED JANUARY 27, 1992

#### QUESTION PRESENTED FOR REVIEW

Does the Mexican style appearance of a Mexican food restaurant chain constitute protectable intellectual property equivalent to a federally registered trademark, even where the restaurants in the chain did not, and cannot show that their Mexican "look" has secondary meaning in the eyes of their customers, so that members of the public clearly associate the appearance of those restaurants with a single commercial source of the food and services sold in conjunction with that appearance?

TABLE OF CONTENTS

	<i>Page</i>
QUESTION PRESENTED FOR REVIEW .....	i
TABLE OF AUTHORITIES .....	v
OPINIONS BELOW .....	1
JURISDICTION .....	1
STATUTORY PROVISIONS INVOLVED .....	2
STATEMENT OF THE CASE .....	2
A. Two Pesos' Entry Into The Marketplace.....	2
B. Taco Cabana's Response To Two Pesos' Expansion: The Emergence Of TaCasita And The Commencement Of This Litigation.....	3
SUMMARY OF THE ARGUMENT.....	3
ARGUMENT .....	5
I. The Lanham Act Should Not Be Used To Protect Commercial Business Concepts And Thereby Hinder Legitimate Competition .....	5
II. The Jury's Clear And Unequivocal Finding Of No Secondary Meaning Precludes Liability In This Case .....	9
III. The Courts Below Misunderstood And Misapplied The Doctrine Of Inherent Distinctiveness.....	10
A. Trade Dresses Are Not Usually Inherently Distinctive .....	10
B. The Meaning of Inherent Distinctiveness Needs Clarification in the Context of Trade Dress Cases .....	13

TABLE OF CONTENTS (cont.)

	<i>Page</i>
1. The definition of inherent distinctiveness .....	13
2. By their very nature, restaurant trade dresses are not inherently distinctive.....	17
3. Taco Cabana's trade dress is not inherently distinctive .....	18
a. The absence of secondary meaning for Taco Cabana's trade dress precludes it from being inherently distinctive .....	18
b. The fact that Taco Cabana's trade dress contains many functional elements precludes it from being inherently distinctive .....	19
c. Taco Cabana's trade dress is also descriptive and generic and may not therefore be inherently distinctive .....	20
d. The lack of a single commercial source for the Taco Cabana trade dress precludes it from having secondary meaning and from being inherently distinctive .....	22

TABLE OF CONTENTS (cont.)

	<i>Page</i>
IV. If Taco Cabana's Trade Dress Were Held To Be Protectable, Little Impediment Would Remain To Prevent The Monopolization Of Numerous General Business Concepts .....	26
CONCLUSION .....	28

## TABLE OF AUTHORITIES

Case	Page
<i>Bayer Co. v. United Drug Co.</i> , 272 F. 505 (S.D.N.Y. 1921) .....	13
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141, 109 S. Ct. 971, 103 L. Ed. 2d 118 (1989) .....	19, 27, 28
<i>Carl Zeiss Stiftung v. VEB Carl Zeiss Jena</i> , 433 F.2d 686 (2d Cir. 1970), <i>cert. denied</i> , 403 U.S. 905 (1971) .....	24
<i>Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.</i> , 659 F.2d 695 (5th Cir. 1981), <i>cert. denied</i> , 457 U.S. 1126 (1982) .....	10, 11
<i>Firestone Tire &amp; Rubber Co. v. Goodyear Tire &amp; Rubber Co.</i> , 186 U.S.P.Q. 557 (TN.T.A.B. 1975), <i>aff'd</i> , 189 U.S.P.Q. 348 (C.C.P.A. 1976) .....	12
<i>Fuddruckers, Inc. v. Doc's B.R. Others, Inc.</i> , 623 F. Supp. 21 (D. Ariz. 1985), <i>reversed</i> , 826 F.2d 837 (9th Cir. 1987) .....	10, 27
<i>Greyhound Corp. v. Rothman</i> , 84 F. Supp. 233 (D. Md.), <i>aff'd</i> , 175 F.2d 893 (4th Cir. 1949) .....	12
<i>Häagen-Dazs, Inc. v. Frusen Glädje Ltd.</i> , 493 F. Supp. 73 (S.D.N.Y. 1980) .....	8

## TABLE OF AUTHORITIES (cont.)

Case	Page
<i>Holzappel's Compositions Co. v. Rahtgen American Composition Co.</i> , 183 U.S. 1, 22 S. Ct. 6, 46 L. Ed. 49 (1901) .....	13
<i>Inwood Laboratories, Inc. v. Ives Laboratories, Inc.</i> , 456 U.S. 844, 102 S. Ct. 2182, 72 L. Ed. 2d 606 (1982) .....	19
<i>John H. Harland Co. v. Clarke Checks, Inc.</i> , 711 F.2d 966 (11th Cir. 1983) .....	6
<i>Kellogg Co. v. National Biscuit Co.</i> , 305 U.S. 111, 59 S. Ct. 109, 83 L. Ed. 73, <i>r'hg denied</i> , 305 U.S. 674, 53 S. Ct. 246, 83 L. Ed. 47 (1938) .....	13
<i>La Republique Francaise v. Saratoga Vichy Spring Co.</i> , 191 U.S. 427, 24 S. Ct. 145, 48 L. Ed. 247 (1903) ....	12
<i>Levi Strauss &amp; Co. v. Blue Bell, Inc.</i> , 778 F.2d 1352 (9th Cir. 1985) .....	10, 24
<i>Lindy Pen Co. v. Bic Pen Corp.</i> , 725 F.2d 1240 (9th Cir. 1984), <i>cert. denied</i> , 469 U.S. 1188 (1985) .....	24
<i>Mennen Co. v. Gillette Co.</i> , 565 F. Supp. 648 (S.D.N.Y. 1983), <i>aff'd without op.</i> , 742 F.2d 1437 (2d Cir. 1984) .....	8
<i>Prufrock Ltd., Inc. v. Lasater</i> , 781 F.2d 129 (8th Cir. 1986) .....	8, 27

TABLE OF AUTHORITIES (cont.)

Case	Page
<i>Sno-Wizard Mfg., Inc. v. Eisemann Products Co.</i> , 791 F.2d 423 (5th Cir. 1986) .....	22
<i>Stork Restaurant v. Sahati</i> , 166 F.2d 348 (9th Cir. 1948) .....	11
<i>Telechron, Inc. v. Telicon Corp.</i> , 198 F.2d 903 (3d Cir. 1952) .....	11
<i>Truck Equipment Service Co. v. Fruehauf Corp.</i> , 536 F.2d 1210 (8th Cir.), cert. denied, 429 U.S. 861 (1976). ....	6
<i>Wise v. Bristol-Myers Co.</i> , 107 F. Supp. 800 (S.D.N.Y. 1952) .....	12
<i>Zatarains, Inc. v. Oak Grove Smokehouse</i> , 698 F.2d 786 (5th Cir. 1983) .....	12, 22, 23
<i>Rules, Regulations and Statutes</i>	
United States Code:	
15 U.S.C. § 1052 et seq. ....	12, 21, 22
15 U.S.C. § 1125(a) .....	2
28 U.S.C. § 1254(1) .....	2

TABLE OF AUTHORITIES (cont.)

Other Authorities	Page
Oxford Universal Dictionary (3d ed. rev. 1963) .....	14
McCarthy, Thomas J., 1 TRADEMARKS & UNFAIR COMPETITION (2d ed. 1984):	
§ 8:2 .....	10, 11
§ 15:1 .....	10, 12, 24
§ 16:2 .....	14
§ 16:14.A .....	24

### OPINIONS BELOW

The unreported, appealable final order of the District Court in this case held, in present material regards, (a) that Taco Cabana's trade dress was a protectable mark that was infringed by Two Pesos, (b) that the damages found by the Jury for such infringement were to be doubled to \$1,868,600, and (c) that injunctive relief was granted, requiring Two Pesos to materially change its trade dress and, further, to post a sign on both the interior and exterior of each Two Pesos restaurant which, in initial and significant regard, reads "TACO CABANA originated a restaurant *concept* which Two Pesos was found to have unfairly copied . . ." (JA I 105-108; emphasis added).<sup>1</sup>

The Fifth Circuit Court of Appeals' opinion — which affirmed the District Court's judgment and held that Taco Cabana's trade dress was inherently distinctive and, although it consisted of many functional elements, was protectable nonetheless as a registered mark — is reported at 932 F.2d 1113 (5th Cir. 1991) and, further, may be found, but without corresponding page numbers, as Appendix A to the Petition for a Writ of Certiorari and at JA I 1-37.

### JURISDICTION

Two Pesos' Petition for Rehearing and Suggestion for Rehearing en Banc to the Fifth Circuit Court of Appeals was denied on July 22, 1991, and Two Pesos' Petition for a Writ of Certiorari was filed with the Court on October 18, 1991. The Court's jurisdiction

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<sup>1</sup> "JA" references are to the Joint Appendix, Volumes I and II, followed by the page numbers; "T" references are to the trial transcript, with the month and day indicated.



to review the judgment of the Fifth Circuit Court of Appeals by Writ of Certiorari is founded on 28 U.S.C. § 1254(1).

### STATUTORY PROVISIONS INVOLVED

This case involves the protectability of a restaurant chain's trade dress under Section 43(a) of the Trademark Act of 1946, as amended, 15 U.S.C. § 1125(a) and related sections of the Act (the "Lanham Act").

### STATEMENT OF THE CASE

#### A. Two Pesos' Entry Into The Marketplace.

Taco Cabana and Two Pesos are competing chains of upscale fast food Mexican restaurants selling alcoholic beverages. The original owners and founders of Taco Cabana are Felix and Michael Stehling. Two Pesos' founder is Marno McDermott, formerly a major shareholder and director of Fuddrucker's and also of Chi Chi's, a Mexican restaurant chain.

In September 1978, Taco Cabana opened its first restaurant in San Antonio (JA II 5). From then until early 1986, Taco Cabana opened only six additional restaurants, all in San Antonio (JA II 4 and 5). It was clearly a local restaurant chain that planned to stay that way.

Thereafter, Two Pesos opened its first restaurant in Houston in December 1985 (JA II 3). At the time, Taco Cabana had no restaurants at all outside of San Antonio (JA II 3, 4, 5 and 6). Two Pesos rapidly expanded, initially in Houston, then in Dallas/Fort Worth and subsequently in various cities outside of Texas (*id.*).

#### B. Taco Cabana's Response To Two Pesos' Expansion: The Emergence Of TaCasita And The Commencement Of This Litigation.

After learning about and visiting Two Pesos' first restaurant in Houston, Felix Stehling decided he wanted to pursue Two Pesos and expand Taco Cabana outside of San Antonio and indeed Texas. However, he was unable to convince his brother, Michael Stehling, and other family members to do so. Six days before this action was filed, the Stehling brothers entered into a series of agreements to divide up the Taco Cabana restaurants and go their separate ways (T 9/28, 108-109). Among the agreements was a trade dress agreement (JA I 227-230).

The Taco Cabana restaurants in San Antonio were divided between the Felix Stehling group and the Michael Stehling group. Those belonging to the Michael Stehling group were renamed Ta-Casita restaurants. The Felix Stehling group quickly expanded Taco Cabana by following Two Pesos into the cities where Two Pesos was already doing business. Between 1987 and 1989, Taco Cabana opened two restaurants in El Paso, four in Dallas/Fort Worth, and three more in Houston (JA II 3, 4, 5 and 6). Taco Cabana's expansion outside of San Antonio occurred only after it filed the present action, alleging trade dress infringement under Section 43 of the Lanham Act, and just before Two Pesos went public. Two Pesos counterclaimed, alleging Taco Cabana was attempting to impair Two Pesos' ability to compete (JA I 50-63).

### SUMMARY OF THE ARGUMENT

Taco Cabana's overall trade dress of a Mexican decor and a combination of admittedly functional features, cannot rise to the level of a protectable trade dress, subject to exclusive appropriation by a single commercial source in the manner of a federally



registered trademark, (i) because the Jury found it had no secondary meaning, (ii) because the trade dress is simultaneously being used by two separate and distinct Mexican restaurant chains — Taco Cabana and TaCasita — so that it does not identify a single commercial source, and (iii) because the trade dress itself contains too many common and ordinary visual aspects, which relate to functional, descriptive and generic features, in order for the trade dress to have secondary meaning or be inherently distinctive, as Taco Cabana contends and the courts below found.

Taco Cabana has sought and effectively has obtained trademark protection for what was over and over again identified at trial as its restaurant “concept,” rather than, more narrowly, its trade dress, and it has done so for the purpose of hindering and injuring the legitimate competition afforded by Two Pesos in markets Taco Cabana entered only after Two Pesos.

Concept copying is lawful. If Taco Cabana’s “trade dress concept” is held to be inherently distinctive and its functional features, subject to exclusive appropriation and use, as the Fifth Circuit concluded, then there is little impediment left to prevent claims of exclusivity and subsequent monopolization of myriad other commercial business concepts, not only in the restaurant industry, but elsewhere.

Moreover, such monopolization, with its attending impairment of competition, would be left to proceed on an *ad hoc* basis, from one litigation to the next, without the regulatory influence afforded by the administrative and screening activities of the United States Patent and Trademark Office. No Principal or Supplemental Register or other system of registration in that Office or elsewhere is available to afford notice to prospective competitors on

what “trade dress concepts” are and are not still available for exclusive appropriation and use.

## ARGUMENT

### I. The Lanham Act Should Not Be Used To Protect Commercial Business Concepts And Thereby Hinder Legitimate Competition.

This case was tried as a restaurant “concept” case, rather than strictly as a trade dress case. Norman Brinker, one of America’s premier restaurateurs, framed the inquiry in the trial court when he was asked by Taco Cabana’s counsel “. . . what makes for a successful restaurant concept?” Brinker said:

. . . You look around at the restaurants you go to. Some you enjoy. You can’t quite put your finger on it, but you know some things. You know that it will be consistent. You know you’ll have good price value. You know the people will be friendly. You know the food will be good. You know the restaurant and facility will be clean. Those things you know.

But those restaurants that are really successful, it has something else about it. It’s a place where you feel comfortable. It’s a place I like. It’s a place I enjoy. And when I leave, for whatever reasons, my total experience is well worth the amount of money I’ve paid for that experience.

(JA I 110-111).

When he was asked how that related to trade dress, Mr. Brinker testified:

Well, trade dress is the total concept or precept that you experience. It’s the method of service, the ambience. It’s the

way the employees look. It's how the food is delivered. It's how the food is prepared. It's the palatalizing of the food. And certainly the location.

(*Ibid.*).

This is a far cry from the definition of trade dress as a visual appearance that was set out by the court in *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983):

"Trade dress" involves the total [visual] image of a product and may include features such as size, shape, color or color combinations, texture, [and] graphics . . . 1 J.T. McCarthy, [TRADEMARKS & UNFAIR COMPETITION] § 8.1, at 230-31 [(1973)].

See also *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1218 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976).

As with Mr. Brinker, so it went with other Taco Cabana witnesses throughout the trial. The focus, almost invariably, was on the broad, general restaurant "concept," instead of on the traditional and more limited notion of trade dress. Some three plus pages of record references to trial testimony that implicitly or explicitly dealt with restaurant "concept" rather than trade dress are found at JA I 222-226. Additionally, an actual sampling of such testimony is provided at JA I 110-111, 113, 124-126, 127-128, 131-132, 135, and especially 136-137.

The matter need not be further belabored here except to point out the impact on the Jury. JA II 41 is the damages worksheets of the Jury. As page two of those worksheets shows, the Jury awarded damages based on what it believed were the wrongful misappropriation of Taco Cabana's "trade dress, . . . *proven con-*

*cept* . . . and advertising." (Emphasis added.) As presented to the Jury and allowed by the District Court, this was much more than an ordinary trade dress case.

If the interests of competition are not always well served by the reach of trademark law, it is surely the case that these interests would be seriously injured and hampered unduly by the protection of general business "concepts" under the Lanham Act. In the restaurant industry alone, protection for "proven concepts" would imply that, if McDonald's were the first economical, fast-food hamburger restaurant chain, then it would be able to preclude Whataburger, Burger King, and Wendy's, among others, from utilizing its "proven concept." Aside from McDonald's golden arches, all of these restaurant chains use the same concept and their trade dresses are therefore highly similar, largely because of the preponderance of common functional elements contained in the visual image of each restaurant.

For the most part, the hamburger chains rely on their trade names and an occasional logo to distinguish themselves commercially from each other.<sup>2</sup> Here, Taco Cabana wants more, much more: it wants protection for its restaurant concept of an upscale, fast-food Mexican restaurant with a drive-thru and a liquor license. Felix Stehling's reach to this end is unmistakable. At one point, when pressed on cross-examination, Mr. Stehling went so far as to testify that "the whole concept" of Taco Cabana was a trade secret (JA I 143-144).

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<sup>2</sup> Apparently in recognition of the potential problem, McDonald's adopted its golden arches which typically have been rendered, in the particular instances, as conspicuously as local zoning ordinances will allow.

It is not the purpose of the Lanham Act to foster lawsuits as "competitive ploys" so that an initial user of a business concept can stop an aggressive competitor from expanding in the market place using the same concept. See *Mennen Co. v. Gillette Co.*, 565 F. Supp. 648 (S.D.N.Y. 1983), *aff'd without op.*, 742 F.2d 1437 (2d Cir. 1984). Restaurant concepts, such as the present one, are simply not protectable under the Lanham Act. See *Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129 (8th Cir. 1986) and *Häagen-Dazs, Inc. v. Frusen Glädje Ltd.*, 493 F. Supp. 73 (S.D.N.Y. 1980). In *Häagen-Dazs*, the court said: "[i]t would be ludicrous . . . to suggest that . . . one producer and not another is permitted to take advantage of [a] marketing approach to enhance consumer reception of its product." *Id.* at 75.

*Prufrock* is particularly on point here. There, the plaintiff attempted to preclude the defendant from operating a "full service restaurant serving down home country cooking in a relaxed atmosphere with a full service bar." 781 F.2d at 130. As Taco Cabana does here, *Prufrock* pointed to elements such as the use of the exposed kitchens, large open dining areas, and decorative items on the walls to argue that its concept was really a protectable trade dress. Similarly, as here, the District Court in *Prufrock* permitted trade dress protection for what, in reality, was an unprotectable restaurant concept. The Eighth Circuit Court of Appeals had no difficulty finding that the District Court erred. It said:

The concept of informal country dining is merely the method *Prufrock* has chosen to market its restaurant services . . . . Regardless of whether the other listed elements of *Prufrock*'s trade dress can be protected, the district court committed error by including *Prufrock*'s core concept in its definition of *Prufrock*'s trade dress. *Prufrock* simply cannot

preclude [defendant] from entering the "down-home country cooking" restaurant business.

*Id.* at 132.

Unfortunately in this case, after referring to Taco Cabana's "trade dress concept," the District Court told the Jury, ". . . [y]ou are instructed that 'trade dress' is the total *image of the business* . . ." (T 10/26, 15, 17; emphasis added). Even so, the Jury still had no problem finding that the trade dress had no secondary meaning (JA II 40).

## II. The Jury's Clear And Unequivocal Finding Of No Secondary Meaning Precludes Liability In This Case.

The Jury concluded that Taco Cabana's trade dress had, after almost a decade of use, no secondary meaning at all (JA II 40). This means, in no uncertain terms, that there is no associational relationship in the mind of the public between Taco Cabana as a single commercial source and the trade dress used by Taco Cabana in conjunction with the food products and services it sells.<sup>3</sup>

The notion that, after such prolonged use without the emergence of secondary meaning, Taco Cabana's trade dress could be even legally protectable, much less inherently distinctive, is nothing short of absurd. Taco Cabana's position in this case is a legal *non sequitur* of the worst sort.

<sup>3</sup> In order to establish liability on Taco Cabana's trade dress claim, it was necessary for Taco Cabana to prove (i) that its trade dress was inherently distinctive, without proof or a finding by the Jury that the trade dress lacked secondary meaning, or (ii) that the trade dress had secondary meaning, although it was not inherently distinctive.



In *Fuddruckers, Inc v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987), the court noted the same difficulty and went on to graciously suggest the absurdity of finding inherent distinctiveness in the absence of secondary meaning:

Fuddruckers, moreover, has not offered this court a definition of what "inherently distinctive" in the trademark sense might mean in the absence of secondary meaning. If purchasers do not, in fact, associate Fuddruckers's [sic] trade dress with a source of restaurant services, then it is difficult to see how that trade dress distinguishes Fuddruckers' service from the service of others. See *Levi Strauss & Co. [v. Blue Bell, Inc.]*, 778 F.2d [1352,] 1359 [(9th Cir. 1985) (en banc)].

826 F.2d at 843 (emphasis added).

For reasons we will explain, it should come as no surprise that the Jury found Taco Cabana's trade dress had no secondary meaning in the circumstances.

### III. The Courts Below Misunderstood And Misapplied The Doctrine Of Inherent Distinctiveness.

#### A. Trade Dresses Are Not Usually Inherently Distinctive.

Until the Fifth Circuit's opinion in *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695 (5th Cir. 1981), cert. denied, 457 U.S. 1126 (1982), it was generally understood that trade dresses were not, by their very nature, capable of being inherently distinctive. While understanding the Fifth Circuit's impetus to innovate in *Chevron* on the facts of that particular case, one leading commentator, Professor Thomas J. McCarthy, has continued to adhere generally to the traditional view that trade dresses are not inherently distinctive. See 1 TRADEMARKS & UNFAIR COMPETITION § 15:1 at 657 and § 8:2 at 287 (2nd ed. 1984)

("McCarthy"). We submit that this is the correct view, except in the rarest of instances.

In *Chevron*, the trade dress in question, which the court held inherently distinctive, involved the use of the colors red and yellow in a specific design used in conjunction with a particular style of printing. The court said that this design, used as a unique label on Chevron's agricultural products, was sufficiently "arbitrary" to be inherently distinctive and did not, therefore, require proof of secondary meaning. 659 F.2d at 702-03.

The *Chevron* decision "brought trade dress cases into the mainstream of trademark law," McCarthy at 287, but, like some other juristic innovations, has sometimes been read too broadly and without adequate consideration of its meaning in some subsequent trade dress cases, including this one.

Historically, marks recognized to be inherently distinctive, so that proof of secondary meaning is not required, are only those which are (a) arbitrary, (b) fanciful or, somewhat less clearly, those which are (c) both arbitrary and suggestive.<sup>4</sup>

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<sup>4</sup> A fanciful mark is a word which is expressly coined for the purpose of serving solely and exclusively as a mark, but one that does not have any primary or understood meaning which must be overcome by the development of a secondary meaning. ESSO®, EXXON®, XEROX® and KLEENEX® are examples. See, e.g., *Telechron, Inc. v. Telicon Corp.*, 198 F.2d 903 (3d Cir. 1952).

An arbitrary mark, on the other hand, is one consisting of a word, symbol, picture or the like which has a commonly understood meaning, but, when used in conjunction with a particular type of goods or services, is not suggestive or descriptive of any aspect, quality or characteristic of those goods or services. The mark STORK CLUB used in connection with a night club is an example. See *Stork Restaurant v. Sahati*, 166 F.2d 348 (9th Cir. 1948).

(continued...)

All other types of marks have been understood to require proof of secondary meaning before they will be legally recognized as such. Such marks include those which are classified as (a) descriptive, (b) geographic or geographically descriptive, or which involve the use of (c) a personal name.<sup>5</sup> Proof of secondary meaning is imperative for these types of marks because they have primary meanings which must be overcome in order for them to serve as

<sup>4</sup> (...continued)

Finally, an arbitrary and suggestive mark is one not as strong as an arbitrary or fanciful mark, but very similar to and often very difficult to distinguish from an arbitrary mark. A classical example is the mark GREYHOUND referred to in *Greyhound Corp. v. Rothman*, 84 F. Supp. 233 (D. Md.), *aff'd*, 175 F.2d 893 (4th Cir. 1949). Used in connection with a bus line, it would seem to be an arbitrary mark; however, the word GREYHOUND arguably suggests speed, an enviable characteristic to which most bus lines aspire, and so has a suggestive aspect also.

<sup>5</sup> A descriptive mark is one that identifies an aspect or characteristic of goods or services sold in conjunction with it. See *Zatarains, Inc. v. Oak Grove Smokehouse*, 698 F.2d 786 (5th Cir. 1983). The test for descriptiveness is whether the mark communicates a material characteristic, function or quality of a product or class of products to one who does not know about the products in the first instance. *Wise v. Bristol-Myers Co.*, 107 F. Supp. 800 (S.D.N.Y. 1952). A mark that is merely descriptive may not be registered, unless it has acquired secondary meaning under Sections 2(a) and (n) of the Lanham Act, 15 U.S.C. § 1052. A key test on whether a mark is descriptive, or alternatively, suggestive, is to gauge the extent to which other sellers of similar goods use the same or similar mark. See *Firestone Tire & Rubber Co. v. Goodyear Tire & Rubber Co.*, 186 U.S.P.Q. 557 (T.N.T.A.B. 1975), *aff'd*, 189 U.S.P.Q. 348 (C.C.P.A. 1976).

Marks descriptive of a geographical region or location require proof of secondary meaning because they are not sufficiently distinctive to pinpoint or distinguish the goods of one and only one seller from those of others. McCarthy, § 15:1 at 657. As the Court explained in *La Republique Francaise v. Saratoga Vichy Spring Co.*, 191 U.S. 427, 435, 24 S. Ct. 145, 146, 48 L. Ed. 247 (1903):

[G]eographical names often acquire a secondary signification indicative not only of the place of manufacture or production, but of the name of the manufacturer or producer and the excellence of the thing manufactured or produced.

See also Sections 2 and 4 of the Lanham Act, 15 U.S.C. § 1052 *et seq.*

marks — *ergo*, the need for proof of the recognized existence of a secondary meaning for such marks.

Finally, would-be marks which are generic in character may not serve as trademarks at all. *Holzapfel's Compositions Co. v. Rahtjen's American Composition Co.*, 183 U.S. 1, 22 S. Ct. 6, 46 L. Ed. 49 (1901). The test for genericness was provided by Judge Learned Hand in *Bayer Co. v. United Drug Co.*, 272 F. 505, 509 (S.D.N.Y. 1921), when he wrote: "The single question, as I view it, in all these cases, is merely one of fact: What do the buyers understand by the word [or would-be mark] for whose use the parties are contending?" That is, what does the mark connote to the public?

A seller attempting to prove a mark is not generic must "show that the *primary* significance of the [would-be mark] in the minds of the consuming public is *not* the *product* but the *producer*." *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 118, 59 S. Ct. 109, 113, 83 L. Ed. 73, *reh'g denied*, 305 U.S. 674, 59 S. Ct. 246, 83 L. Ed. 437 (1938) (emphasis added). The *Kellogg* test clearly establishes, in this case, that Taco Cabana's trade dress is almost wholly generic.

## B. The Meaning of Inherent Distinctiveness Needs Clarification in the Context of Trade Dress Cases.

### 1. The definition of inherent distinctiveness.

Whether a mark is inherently distinctive, or whether secondary meaning must be proved to secure its protectability, requires a clear notion of the meaning of inherent distinctiveness. Secondary meaning is well-enough understood: it is the developed associational relationship in the mind of the public between the mark and the single commercial source of the goods sold in con-

junction with the mark. The meaning of inherent distinctiveness is less obvious.

Professor McCarthy has defined marks that are "inherently distinctive" as:

[T]hose business symbols which are so distinctive in and of themselves that legal protection is granted immediately upon adoption and use.

Section 16:2 at 721. Unfortunately, this statement does more to identify, rather than define the idea. More is needed.

The Oxford Universal Dictionary (3d ed. rev. 1963) defines "inherent" to mean existing in something as a permanent attribute or quality. The same dictionary defines "distinctive" as the characteristic of being able to distinguish, differentiate or discriminate. Combining these meanings, the phrase "inherently distinctive," in regard to a mark, should be properly understood to mean that the mark is sufficiently arbitrary or fanciful to have existing in it, *ab initio*, from the time of its very creation, the unmistakable and undoubted capacity to be identified and recognized prospectively in the mind of the public as an identifier of a single commercial source or origin for the goods or services sold in conjunction with the mark, to the exclusion of all other sources of similar goods or services. This is a very tall order, particularly for any sort of trade dress, much less for a restaurant trade dress. If we genuinely believe that a mark does not clearly have these

capacities, at the outset of its use, then it is not inherently distinctive; if it does, then it is.<sup>6</sup>

If there is a question about the capacity of a mark to so inherently distinguish and identify, then secondary meaning must be proved. That is, from the experience of use, it must be shown that a public judgment has been made, on the basis of that experience, that the mark has been identified as such and has become distinctive by overcoming any primary or otherwise existent meanings or lack thereof the mark may have. Only then may it be said that the mark is recognized and may serve as one.

A fanciful or arbitrary mark does not have any relevant meaning at the outset of its use. Any meaning an arbitrary mark might have, were it used in some other context, is meaningless in the context of its actual use. It is this very aspect of an arbitrary or fanciful mark that creates the possibility for it to be inherently distinctive.

However, the mere possibility is not enough. It must further be the case that the putative mark will cause the public to recognize that it is intended to be a mark, that is, an identifier of source. If it lacks the ability to have the public recognize it as such, then it may not serve as a mark.

Mistaken judgments are possible, even in regard to marks thought, at the outset, to be inherently distinctive. First, an ar-

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<sup>6</sup> While secondary meaning can exist in the absence of inherent distinctiveness and inherent distinctiveness can exist without a finding of secondary meaning, inherent distinctiveness may not exist if actual secondary meaning is subsequently found lacking.



bitrary or fanciful configuration intended to be a trademark, might not ever be recognized by the public as an identifier of any sort, even after years of actual use. Secondly, the presumption of human association might have no real prospect or it might not materialize from experience as hoped for. That is, even if a putative mark is seen and is acknowledgeable by the public, there might not develop the associational relationship in the mind of the public between the putative mark and the sale of the goods or services or between the would-be mark and any single commercial source.

Marks which are inherently distinctive in fact tend to be highly arbitrary or fanciful. This is no coincidence. It is the very characteristic of arbitrariness or fancifulness, in the legal sense of those words, that precludes the intrusion of common, typical or usual aspects, in the context of use, and thereby gives rise to the prospect of inherent distinctiveness.<sup>7</sup> Putative marks containing functional, descriptive, geographical or generic aspects, by their very nature, are not fanciful or meaningfully "arbitrary," as that term is understood in trademark law.<sup>8</sup>

Finally, if there is ever doubt, the experience over time of a putative mark's use before the public can answer the question of whether the would-be mark is in fact an identifier of a single commercial source of a product. If it is, then the public recognizes and

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<sup>7</sup> It is noteworthy that owners of arbitrary or fanciful marks often directly advertise and promote the associational relationship of their marks. There is no noteworthy indication of record that Taco Cabana ever did so in this case.

<sup>8</sup> Unmeaningfully "arbitrary" combinations of functional, descriptive, geographical and/or generic features in a trade dress do not create the prospect for inherent distinctiveness, but only a collage of mixed messages and the mundane, which is often not even recognized as being intended as a mark.

understands the associational relationship intended, and the mark might, depending on the degree of fancifulness or correctly understood arbitrariness, be inherently distinctive, or, alternatively, have secondary meaning. If the putative mark is not so recognized and understood as an identifier, then it is neither inherently distinctive, nor does it have secondary meaning. This latter circumstance is the case for Taco Cabana's trade dress.

**2. By their very nature, restaurant trade dresses are not inherently distinctive.**

Almost invariably, the visual appearance of restaurants consists, in overwhelming part, of the predominate lines, shapes, colors and textures created by the tables, chairs, doors, counters, cash registers, vertical walls, windows, kitchen equipment, floor tiles, etc., commonly and usually found in restaurants. In fact, in the composite vision that is the trade dress of a restaurant, these commonplace and functional items — recognized by all in an instant — clearly predominate. Typically, an equally commonplace decor, often indicative of the type of food sold in the restaurant, is presented on the interior and sometimes exterior of a restaurant. Plants in restaurants are as predictable as rain in Seattle.

With so much that is functional, commonplace, descriptive and even generic in restaurants, it is virtually impossible to imagine a restaurant with a trade dress that is truly fanciful; that is, one that is expressly created to serve solely and exclusively as a trademark, one that is unique and distinctive, and one that does not have any descriptive or other meaning which must be overcome by the development of secondary meaning.<sup>9</sup> Restaurants do not have

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<sup>9</sup> See n.4, *supra*. Taco Cabana's trade dress is no ESSO®, EXXON®, or XEROX®. Nothing about it is fanciful, as that word is properly understood.

trade dresses that are even remotely arbitrary, within the meaning of that word in trademark law.<sup>10</sup> Restaurant trade dresses are probably the least amenable forms of putative marks to qualify as arbitrary or fanciful. Generally, trade dresses rarely qualify as arbitrary or fanciful.

**3. Taco Cabana's trade dress is not inherently distinctive.**

**a. The absence of secondary meaning for Taco Cabana's trade dress precludes it from being inherently distinctive.**

The District Court's Jury instruction on secondary meaning was fully adequate, if uninspired. It asked the Jury to determine if there was an association in the mind of the public between the trade dress and Taco Cabana in connection with the products or services sold by Taco Cabana and said the Jury should consider, in that regard, the length of time and the manner of use of the dress, advertising and promotion of the dress, sales volumes, any actual confusion and the survey evidence presented (JA I 92-93).<sup>11</sup>

<sup>10</sup> This is so because a restaurant trade dress typically has no commonly understood meaning, but often is, as here, simply descriptive of the type of food sold in the restaurant, e.g., the Mexican decor indicates Mexican food is sold in the restaurant. See n.4, *supra*.

<sup>11</sup> Although the Jury's instruction on inherent distinctiveness was erroneous (JA I 91-92), this instruction on secondary meaning was correct (JA I 92-93), so that the Jury's finding of no secondary meaning suffices to enable this Court to render a judgment of no liability in favor of Two Pesos on Taco Cabana's trade dress claim.

Properly guided by this instruction, the Jury correctly found that the public did not associate Taco Cabana's trade dress with Taco Cabana, as a single commercial source of the food products and services sold in conjunction with that trade dress (JA II 40). The dress had no secondary meaning, *i.e.*, meaning in the mind of the public as a mark. Moreover, on the facts of this case, this is the proper conclusion for several important, analytical reasons.

**b. The fact that Taco Cabana's trade dress contains many functional elements precludes it from being inherently distinctive.**

Taco Cabana's trade dress consists of too many functional features for it to be inherently distinctive. Although the Jury concluded, in order to find liability, that Taco Cabana's trade dress was primarily nonfunctional, the Court of Appeals knew better, addressed the problem, and upheld a functionality doctrine that allows protection of a large conglomeration of functional features (JA I 15-18).<sup>12</sup> The Fifth Circuit undoubtedly did so in recognition of the considerable trial testimony — even from Felix Stehling

<sup>12</sup> In regard to the many functional features of Taco Cabana's trade dress, the Court of Appeals concluded that, even in the absence of utility (and presumably, design) patents, such functional features could be combined and monopolized, if the particular combination of such features is not itself functional — whatever that might mean — and the combination is "arbitrary" (JA I 15-18). This conclusion appears to conflict with the conclusion of this Court in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 164, 109 S. Ct. 971, 984, 103 L. Ed. 2d 118 (1989), that "[w]here an item in general circulation is unprotected by patent, '[r]eproduction of a functional attribute is legitimate competitive activity,'" quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 863, 102 S. Ct. 2182, 2193, 72 L. Ed. 2d 606 (1982). It is easy to imagine that a court or jury might not understand or ignore the thrust and intent of this Court's functionality rule and, by adopting the Fifth Circuit's rule instead, grant monopoly rights in perpetuity where only a utility or design patent might otherwise grant exclusive use, and then, only for a limited time.

himself — that the only things in a Taco Cabana restaurant which are not functional are the “decor and plants.” See JA I 129, 141 and 206-207.

The recognition and existence of so many functional elements in Taco Cabana’s trade dress, even if “arbitrarily” combined,<sup>13</sup> precludes that dress from ever being truly fanciful, arbitrary, or even arbitrary and suggestive. The very notion of functionality implies commonality of use and, more significantly here, substantial commonality of visual appearance, which is preclusive of arbitrariness and fancifulness and, therefore, preclusive of inherent distinctiveness.

This conclusion is further reinforced where the nonfunctional aspects of the trade dress are conceded to be only the “decor and plants” and, further, the decor is typically that of a Mexican restaurant.

**c. Taco Cabana’s trade dress is also descriptive and generic and may not therefore be inherently distinctive.**

Mexican restaurant decor is not only common, but it is generic and descriptive, because it calls to mind, in a restaurant context, that the food served is Mexican in flavor, origin and appearance. Chinese food is typically not sold in restaurants with Mexican

<sup>13</sup> See Opinion at JA I 15-16. The Fifth Circuit’s use of the word “arbitrary” here is in the *lay sense* and not as that word is used in trademark law. See n.4, *supra*. Moreover, functional restaurant features, and even combinations of them, should be available for all to use, except where one or more of them is subject to a proper design or utility patent, issued only after a full-blown patent examination.

decor and those with Chinese decor do not usually serve enchiladas or tacos.

As used by restaurants, Mexican decor connotes the sale of Mexican food and, of course, Mexico, as the origin of the food. Paraphrasing the language of this Court in *Kellogg*, the primary significance of Mexican decor in the mind of the consuming public is that the restaurant sells Mexican food and not that the commercial source is somehow distinguished. From this analysis, it may be understood that the decorative, nonfunctional aspects of Taco Cabana’s trade dress really and truly contain substantial descriptive and generic aspects. This is but another reason the trade dress may not be considered arbitrary or fanciful and, therefore, inherently distinctive.

The decorative aspects of Taco Cabana’s trade dress, including the plants, are descriptive not only of the food sold by the Taco Cabana restaurants, but also of the geographical location and ethnic origin of those foods items. Trademarks which are descriptive of the product or descriptive of the geographical location of the origin of the product or which are generic are not inherently distinctive, but must have secondary meaning before they may be protected as such under Section 2 of the Lanham Act, 15 U.S.C. § 1052:

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it—

(a) Consists of or comprises . . . deceptive . . . matter

• • •



(e) Consists of a mark which ... (2) when applied to the goods of the applicant is primarily geographically descriptive ....

(f) Except as expressly included in paragraphs (a)-(d) ... nothing ... shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods in commerce.

The underlying notion here is the same as that regarding multiple functional features: geographically descriptive marks and features with generic aspects are not sufficiently specific or distinctive to pinpoint one and only one seller and identify and distinguish his goods from those of others, at least in the absence of the secondary meaning developed over time.

Taco Cabana's trade dress does not have inherent in it the prospect of being sufficiently arbitrary or fanciful to be inherently distinctive. Worse, for Taco Cabana in this case, the visual impression created by that trade dress, after a decade of use, is not sufficiently distinctive — much less inherently so — to have the public even identify it as a trademark.

**d. The lack of a single commercial source for the Taco Cabana trade dress precludes it from having secondary meaning and from being inherently distinctive.**

In order for a trademark to have secondary meaning or be inherently distinctive, it must be associated in consumers' minds with a single commercial source. *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 427 (5th Cir. 1986); and *Zatarains, Inc. v. Oak Grove Smokehouse*, 698 F.2d 786, 797 (5th Cir. 1983). The fact is that both the Taco Cabana restaurants and

the TaCasita restaurants use the very same trade dress (see JA II 1 and 2), but actually are separate and distinct commercial sources thereby preventing the trade dress from being a mark.

In an effort to avoid this predictable result, the Michael and Felix Stehling factions entered into a Trade Dress Agreement (JA I 227). However, that Agreement is fatally flawed. In its material part, it reads:

1. **LICENSE.** The M Group and the F Group each hereby grant a limited license to the other to use the trade dress the other is currently using to the limited extent permitted herein ....<sup>14</sup>

This licensing provision is a sham. It licenses to each what each already has. It clearly recognizes that, as a licensor, both the M Group and the F Group each have ownership rights, *ab initio*, to the trade dress as both a licensor and a prior user. All this licensing provision does is evidence the agreement of the M Group and the F Group that the trade dress may be used by both the Taco Cabana and the TaCasita restaurants simultaneously. The provision does not solve the problem; it creates it because Taco Cabana and TaCasita are wholly separate commercial sources, doing business under different trade names, but using the same trade dress.

This arrangement is fatal to the dress as a putative mark. As the Fifth Circuit explained in *Zatarains*, a mark is protectable only

<sup>14</sup> The M Group is the Michael Stehling faction and the F Group is the Felix Stehling faction. This Agreement has been referred to in this litigation variously as the Trade Dress Agreement and the cross-licensing agreement. In fact it is a joint-use agreement, and little more.

when it identifies, in the minds of consumers, a product or service coming from a single commercial source. 698 F.2d at 795. See also McCarthy § 15:1.

When two or more manufacturers of a product or service use the same mark for the same types of goods, that mark can no longer indicate a single commercial source or origin. See McCarthy § 16:14.A n.18 at 749.<sup>15</sup> Similarly, the Ninth Circuit Court of Appeals has also held that multiple commercial sources or origins preclude protectability for a trademark. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1358 (9th Cir. 1985), and *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240, 1244 (9th Cir. 1984), *cert. denied*, 469 U.S. 1188 (1985). See also *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971). In particular, for the present case, see the photographs that are JA II 1 and 2.

Recognizing that the licensing provision was legally defective, the Stehling brothers added the following further provision in the Trade Dress Agreement:

... The F Group and the M Group each agree to use reasonable efforts to *modify their trade dress for their respective future restaurants* sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind.

(JA I 228; emphasis added).

<sup>15</sup> It is noteworthy that Professor McCarthy, the author of this treatise, was one of Taco Cabana's expert witnesses. He testified briefly for Taco Cabana, but was excused by the District Court before Two Pesos' counsel had an opportunity to cross-examine him (T 10/17, 159-163).

However, the hoped-for ameliorative effects of this provision were not obtained for several reasons. First, the provision is tantamount to a declaration that the trade dress is abandoned, at least as to future restaurants. Secondly, neither Taco Cabana, nor TaCasita, ever complied with this provision (T 10/3, 39-43; T 9/29, 120-124). Thirdly, assuming compliance, this provision does nothing to eliminate the problem of the same trade dress being used by the nine original Taco Cabana restaurants: five, as continuing Taco Cabana restaurants, and four, as now renamed TaCasita restaurants (JA I 227-230).

The inclusion in this Agreement of this trade dress modification provision only exacerbates the problem. It makes it clear that each of the Stehling brothers understood the legal difficulties involved, but neither was willing to give up his ownership of the trade dress rights and become a licensee of the other. The Fifth Circuit was conspicuously silent on this point (JA I 20-23).<sup>16</sup>

Taco Cabana's trade dress is not an identifier of a single commercial source or origin, but serves instead to create the very type of confusion the Lanham Act is intended to avoid. In these cir-

<sup>16</sup> The lack of a single commercial source for the trade dress created predictable difficulties in the common use of the dress by Taco Cabana and TaCasita. The testimony of Virginia Crowe, a sister of Michael and Felix Stehling and a manager of a Houston TaCasita restaurant, was emphatic on three points: first, TaCasita and Taco Cabana kept track of each other in the marketplace as competitors (T 10/5, 104-113, 115-121). Second, neither had any right to or did control the food quality of the other (*ibid.*). And third, Mrs. Crowe confirmed the problems arising from attempting to use the same trade dress as an identifier of two separate commercial sources: the Taco Cabana and TaCasita restaurants "... have the identical trade dress. We look the same. Many people confuse us. Many people come into our store thinking we're Taco Cabana. And I think it happens vice-versa." (JA I 157; emphasis added; see also JA II 1 and 2 on the identity of the trade dresses of Taco Cabana and TaCasita).

cumstances, the Taco Cabana trade dress cannot be a protectable mark.

**IV. If Taco Cabana's Trade Dress Were Held To Be  
Protectable, Little Impediment Would Remain To Prevent  
The Monopolization Of Numerous General Business  
Concepts.**

The analytical limitations on the protectability of a commercially decorative trade dress should include: (1) a correct and concise definition of the trade dress, (2) preclusion of protection for functional features or any combination of such features, and (3) the requirement that the trade dress be recognized by the public as a mark; that is, that it have secondary meaning. In this case, each of these analytical requirements was seriously compromised in the ways that have been described. The result was to afford trademark protection where it should not exist and distort the law in the process.

There is little doubt in this case that Two Pesos did in fact copy Taco Cabana's restaurant concept of an upscale fast-food, Mexican restaurant with Mexican decor that also sells alcoholic beverages and has a drive-thru (see JA II 7 and 12<sup>17</sup>), just as the Whataburger and Burger King chains copied the McDonald's fast-food hamburger restaurant concept, to include the drive-thru

<sup>17</sup> Note that these photographs are of models prepared by Taco Cabana for trial, rather than shots of actual Two Pesos and Taco Cabana restaurants.

windows.<sup>18</sup> Concept copying is clearly permissible, even — and perhaps most particularly — when the concept is a relatively new one, at least in the United States.<sup>19</sup> *Prufrock Ltd. v. Lasater*, 781 F.2d 129 (8th Cir. 1986).

If the narrow legal definition of trade dress is expanded, as it was in this case, to include general business concepts, and if functional, generic and descriptive features may be a substantial or a predominant part of that concept and, finally, if secondary meaning or a proper notion of inherent distinctiveness is not required by the law, then there is little impediment of any significance preventing the exclusive appropriation and monopolization of myriad commercial concepts, including decors, by businesses and others. This should not be permitted, as a matter of law.

Such monopolization of commercial concepts would proceed wholly outside of the administrative scope and reach of the United States Patent and Trademark Office ("PTO"), one of whose functions it is to review and approve or reject applications which determine what trademarks and patents are to be recognized and made a part of the public record. *See Bonito Boats*, 489

<sup>18</sup> In fact, Two Pesos did so only after a careful review of the District Court's decision in *Fuddrucker's, Inc. v. Doc's B. R. Others, Inc.*, 623 F. Supp. 21, 22 (D. Ariz. 1985) (which was later reversed at 826 F.2d 837 (9th Cir. 1987)), in which the court opined that the effort of the Fuddrucker's restaurant chain to get protection for its trade dress was nothing more than a "competitive ploy." (Emphasis added.) The District Court was the latest word and the current thinking at the time (T 10/24, 16-22).

<sup>19</sup> Cabana-styled seafood and Mexican restaurants proliferate along the western coast of Mexico and range from small huts with canvas shades over a few tables and chairs on a beach, to swank restaurant cabanas back from the beaches and up on the sides of hills along the Pacific shoreline.



U.S. at 151. Although this function is, in minor part, shared in an oblique way with the federal courts, it should not be wholly beyond the purview of the PTO in any substantial regard, as it would be here.

Finally, no Principal or Supplemental Register, like those kept by the PTO, is or would be available to afford notice to prospective businesses about what trade dresses they may and may not use as possible marks. Reported and, more seriously, unreported cases in substantial number would create the serious prospect of unintentional or unwitting infringement, with dire consequences possible, as here. Trade dress law would be left to assume an *ad hoc*, separate and unduly expansive life of its own, with predictable attending consequences: like some great iceberg, with its mass below the surface, unseen and adrift on the seas of commerce.

#### CONCLUSION

Taco Cabana's putative trade dress, after much use, has no secondary meaning. Additionally, it is descriptive of the food items sold, is descriptive of the geographical origin of those food items, and consists predominantly of generic and admittedly functional features. As a matter of law, such a trade dress may not be inherently distinctive, as that term is understood in trademark law. And under no circumstances should it be allowed to be used to bludgeon competition and move the competitive struggle from the marketplace into the courts, as has occurred here.

Two Pesos respectfully requests that the Court reverse in relevant part and render judgment in this action in favor of Two Pesos on Taco Cabana's trademark claim.

RESPECTFULLY SUBMITTED.

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